**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM**
**MEETING OF THE BOARD OF DIRECTORS**
**November 28, 2012**

**M I N U T E S**

**Present:**
Treasurer Young Boozer, Chair
Senator Roger Bedford
Dr. Marquita Davis
Dr. Greg Fitch
Ms. Karen Gandy
Mr. Marc Green
General Paul Hankins, Vice Chair
Ms. Leigh Grogan for Dr. Mark Heinrich
Ms. Patti Lambert
Dr. William Meehan
Mr. Jimmy Stubbs

**Absent:**
Ms. Gwen Appling
Representative Craig Ford
Dr. Richard Huckaby
Mr. Mark Sullivan

**Others present include:**
Ms. Daria Story, Assistant Treasurer
Mr. Chad Wright, College Savings Programs Director
Mr. Chad Bryan, Capell & Howard
Mr. Barry Bryant, Dahab Associates
Mr. Steve Roth, Dahab Associates
Mr. Dan Sherman, Sherman Actuarial

**Agenda Item 1.**
Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on November 28, 2012. The meeting was called to order by Chairman Young Boozer at 1:05 p.m. Roll was taken with a quorum present.

**Agenda Item 2.**
Chair Boozer presented the minutes of the August 22, 2012 board meeting. A motion for approval of the minutes as presented was made by Mr. Stubbs, seconded by Dr. Davis. The motion was unanimously approved.

**Agenda Item 3A.**
Chair Boozer asked Mr. Wright for a program report. Information was provided on program activities, cancellations, trust fund assets, and the budget. Mr. Wright reported that over $9.5 million had been paid to various institutions for the summer 2012 term and over $41 million had been paid to date for the fall 2012 term. In addition, he notified the board that invoices continued to be paid for actual tuition/fees pending final resolution of the court case regarding the proposed settlement and that spring invoices

paid at full tuition are expected to be $35-$40 million. He stated that the annual financial audit would begin on Monday, December 3rd.

**Agenda Item 3B.**
Chair Boozer called on Barry Bryant from Dahab to give the quarterly investment report. Mr. Bryant stated that the previous quarter was "risk on" with risk assets and the stock market doing very well. He indicated that GDP for the third quarter was 2.0% and most economic reports, particularly housing and consumer confidence were positive, indicating that the economy overall continues to gain strength. Domestic stocks were up 6-6.5%, international stocks were up 7.5% and the bond market was up 1.6%. Mr. Bryant stated that PACT assets are primarily invested in two intermediate term bond portfolios and two short-term bond portfolios. Currently, 67% of the assets are invested in intermediate term and 27% in short term. He stated that, according to the revised investment policy adopted at the August meeting, these assets must be reallocated in order to achieve an overall allocation of 50% in each (intermediate/short term) by the end of the year. Mr. Bryant indicated that the intermediate term investments were earning approximately 1% more than the short term investments, so he was trying to push forward the amount of time the assets are in intermediate investments in order to take advantage of those earnings. Mr. Bryant stated that the Longfellow intermediate portfolio earned 1.8% for the quarter and the Mackay intermediate portfolio earned 2.0% for the same period, with both outperforming the benchmark of 1.4%. For the quarter, the Longfellow short term portfolio earned 0.7% and the Mackay short term portfolio earned 1.1%, outperforming the benchmark of 0.5%.

**Agenda Item 3C.**
Chair Boozer called on Dan Sherman for discussion of the year end actuarial valuation. Mr. Sherman provided information on the funded status, assets, liabilities, number of active contracts and future funded status under scenarios with differing assumptions. He stated that, as of 9/30/12, the program was 56.8% funded with a funding deficit of approximately $605.5 million. He stated that the funded status decreased from 102.3% in 2011. Mr. Sherman indicated that the difference in funded status was largely due to the fact that the terms of the settlement that are pending court resolution in 2012 were in place at the time the 2011 valuation was completed. He stated that the investment return of 5.8% was better than the assumption of 2.0% which resulted in a net actuarial gain of approximately $15 million. Mr. Sherman then explained the calculation of the funded ratio. Assets of the program total $796.8 million (including current assets of $312.5 million, future Education Trust Fund payments of $479.4 million and future contract payments of $4.9 million). Liabilities total $1,402.3 million (including $1,388.4 million in future tuition/fee payments and $13.9 million in future administrative costs). He stated that the number of active contracts was 34,489 and noted that the number of expiring accounts has been increasing which creates a small actuarial gain that could become a larger gain if the trend continues. Mr. Sherman then discussed the cash flow, asset and liability projection appendix which he said was probably the most important

information in his report. He stated that without approval of the settlement, assets are expected to be depleted during fall 2015. Chair Boozer pointed out that $843 million would be needed by 2032 without the settlement. Ms. Lambert questioned whether or not these deficits included the contributions from the Education Trust Fund and Mr. Sherman indicated that they did. He also mentioned that without the ETF contributions, the deficit would actually be in excess of $1 billion. Mr. Sherman then provided information on matriculations for 2 and 4 year institutions along with historical weighted average tuition and fees. He then discussed scenarios utilizing the assumption that the settlement is upheld on June 1, 2013. In this scenario, the funded ratio becomes 100.2% which makes the program actuarially sound. However, he said that there would still be a cash flow issue beginning in FY 2017 if all assumptions hold true. Chair Boozer stated that he has discussed this issue with legislative leadership. Mr. Sherman then discussed a scenario where all contracts matriculating after 2017 were assumed to cancel immediately. In this scenario, the funded ratio would be 74.1% because the contract redemption values would be less than the actual tuition values.

**Agenda Item 3D.**
Chair Boozer called on Chad Bryan for the legal report. Mr. Bryan provided a summary of the settlement case. He stated that the case had been remanded to Judge Hardwick to determine the constitutionality of the retroactive application of Act 2012-198 that was passed by the legislature. The trial court upheld the constitutionality of the Act in September and the case was returned to the Supreme Court of Alabama. He stated that final briefs were submitted by all parties on November 14, 2012 and that the parties are now awaiting the Court's decision. Mr. Bryan explained that he saw three possible outcomes from the Supreme Court:

1) The Court could uphold the constitutionality of the Act and decide that the settlement is fair, adequate and reasonable on a class basis;
2) The Court could uphold the constitutionality of the Act but decide that the settlement is not fair, adequate and reasonable, or
3) The Court could deem the Act unconstitutional and reject the settlement.

He stated that there is no timeline for a decision from the Supreme Court.

**Agenda Item 4.**
Chair Boozer called on Mr. Wright to provide a summary of a petition from a contract beneficiary asking the Board to consider relief from the program rules. Mr. Wright summarized the request and stated that it had been submitted to Treasury legal counsel, Mr. Matt Bledsoe, to provide recommended action to be taken by the Board. Mr. Bledsoe recommended approval of a two year extension to the maturity date of the original contract based on the beneficiary's extenuating circumstances.

A motion was made by General Hankins, seconded by Senator Bedford, to accept Mr. Bledsoe's recommendation to approve the recommendation with unanimous approval.

**Agenda Item 5.**
Chair Boozer announced the 2013 board meeting dates to be February 20, May 22, August 21 and November 20. He stated that all board meetings would be held at 1:00 pm on the announced dates at the RSA Headquarters unless notified otherwise.

There being no further business to be discussed, a motion was made by General Hankins, seconded by Dr. Davis for adjournment at 1:50 with unanimous approval.

All materials discussed are attached for reference.

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Chad Wright, Recording Secretary

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Young Boozer, Chair